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What the New York Yankees and Boston Red Sox have Taught Me

about Health Insurance... and Life

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If you can't stand baseball or the Yankees, keep reading anyway. This article is as much about insurance as it is about baseball!

Pre-Game Warm-Up:

The Yankees and Red Sox (and many insurance companies) have a long history of winning, success and profits. But winning games and attracting top talent are only part of the strategy. Ticket pricing levels must be set to retain and grow the customer base while the business entity continues to make a profit. Once they get you in the door, both baseball and insurance companies also tease you with additional product offerings such as sports souvenirs and insurance riders. Examples include commemorative bats for baseball and a dental PPO rider for insurance. These extra sales are an excellent strategy and tend to have higher margins, but sometimes the fans don't understand all the acronyms associated with them, and so they don't buy the product. For example, what are A-Rod and Big Papi bats anyway?

Do you think the Yankees could be a better team if only they hired you to be their team manager or consultant?

Let's learn some insurance lessons from the Yankees and Red Sox and play ball.

Top of the First Inning:

Tonight, the Yankees are at home against the Red Sox. Ellsbury leads off with a single but he's caught stealing. The next batter walks, but the Yankees retire Pedroia and Ortiz to end the inning.

What's to learn?

- A hit product only gets a team to first or maybe second base. Having the right pricing and distribution might be necessary to bring in the runs.

- Stealing business from a solid company is difficult and risky. Make sure to run on the right pitch.
- Also, watch out for the pick off if your price is too low. Pick-offs hurt run margins.
- Keep your eye out on the competition, and they will have a harder time stealing from you.

Bottom of the First Inning:

Curt Schilling strikes out the side on 12 pitches.

Moral of the story:

- The competition plays hard against you if they know you're a good team.
- Make sure to understand the competitor's sales pitch if you want to have a chance against them.

Second Inning:

Most of the action takes place in the stands. The fans load up on refreshments. The adults enjoy hot dogs and beer, while most of the youngsters overpay on pizza and cotton candy. There are some healthier alternatives ordered up as well (e.g., peanuts, cracker jacks). One bag of peanuts is hurled by the vender and falls into and out of the mitt of a small child. Meanwhile, security fails to catch a beach ball from the fans as the ball hovers and lands on the field interrupting play. Before you know it, the inning ends scoreless.

Ask yourself:

- Do you sell products or souvenirs that differentiate, improve margins and keep the customer coming back for more?
- Is your customer experiencing a beach ball distraction?
- Do your offerings target and segment different demographics?
- Do you have alternatives and options to attract healthy individuals?

Third Inning:

Pedroia doubles with two outs. The Yankees intentionally walk David Ortiz to put runners on first and second. Lowell homers to put the Red Sox in front 3-0. The Yankees bounce back with three solo home runs and tie the score 3-3.

Your takeaway:

- Use insight into competitor strengths and weaknesses to drive decision making.
- Sometimes it's better to face your pricing challenges than walk around them.
- The big hitters have a huge impact on your margins.
- Cross selling is valuable. A sequence of walks and hits can be as valuable as a few solo shots.

Fourth Inning:

With two outs, the Yankee pitcher gets hit on the shoulder on a ball wrapped sharply up the middle. The deflected ball heads toward the shortstop and he, according to the official scoreboard, makes a throwing error to first base. The pitcher winds up with a rotator cuff injury and is out for the rest of the season plus half of the next. His contract is \$10 million a year for the next two years.

The Yankees have a choice.

- A) Insert their rookie who pitched well in triple-A ball, or
- B) Put in a pitcher with more experience but mixed results.

The Yankees choose the experienced pitcher, but he gets roughed up. The Red Sox score two more unearned runs to lead 5-3. The Yankees lose focus because of their injured player and have an unproductive bottom of the inning.



Questions to mull over:

- Are your rate guarantees as risky as the Yankees contracts?
- When are rate guarantees appropriate? Would you give a rate guarantee with an opt-out agreement to a pitcher with a recurring injury?
- Do you have reinsurance or protection against adverse events in case one of your key players goes down?
- Do you cross train employees in case someone is out for awhile?
- Do you train new employees so that you can be comfortable giving them responsibility if someone becomes absent?
- Do your infielder's errors cost the team runs? Do medical errors and claim processing errors lead to higher health care costs?
- Perhaps the Yankees shortstop should have taken a few more practice balls. Do your health insurance plans have tools that lead to better claim outcomes?
- Can a solid risk manager help his team win?

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The Fifth Inning:

The Yankees gives up another home run, and the Sox are up 6-3.

As manager, you can choose:

- A) To put in the rookie pitcher that shows promise and is eager to play, or
- B) To send the pitching coach to the mound to meet and encourage the existing pitcher to finish the inning.

If based on what you thought might happen you chose B and stayed with the experience, the Red Sox got two more and are now up 8-3. You then bring in the rookie pitcher who takes over and ends the inning.

Make the right calls:

- Have good assumptions. What if you'd have chosen A? If you had chosen A, your score would still be 6-3. Having good assumptions will improve your margins. Most games are won or lost on the margin.
- Use data and experience to make informed decisions, and you'll improve margins.
- Was your trip to the mound merely to pass some time to get the next pitcher warmed up for action? Make sure your meetings aren't simply to pass time.
- Replace a product or person who isn't performing, especially if coaching and improvement plans don't work.
- Make sure to give opportunities to new employees. They'll get better and improve the whole team.

The Sixth Inning:

The Yankees get some close calls on patient hitting and load the bases on three walks with two outs. A-Rod (Alex Rodriguez) hits a clutch full-count double to right that lands inches short of a grand slam. The inning ends with an 8-5 Red Sox lead.

Does A-Rod's multi-season MVP make him worth his very expensive contract if the Yankees win?

- Are you willing to make an expensive investment if it will improve the quality of the customer's experience and improve your chances of winning the business?
- When your bases are loaded do you score a lot of runs or strike out?
- When the count is full, is it better to put it all on the line and go for the homer, or take a little off the swing and more consistently get doubles?
- Do you want homer-strikeout volatility or the stability of base hit after base hit? Does the score influence your answer? Is it more important to take a greater swing when you are behind and inch your rates for greater stability while in the lead?
- Do you win big contracts with expensive customized solutions, or do you play small ball and package the right combination of hits for your markets?

The Seventh Inning:

The Yankee rookie impresses the crowd and leaves three runners stranded in a scoreless inning. God Bless America. Beer sales end, and in its place we buy some more peanuts and cracker jacks.

The Yankees score one run to make it 8-6 and trail by two. Boston replaces Schilling and televisions in Japan tune in as Okajima, another of Boston's talented Japanese pitchers, secures the final out.

The takeaways:

- After a long stretch, fresh health insurance products will maximize performance.
- Sales and offerings should differ for groups with different risks.
- Value diversity in your employees and customers.

Eighth Inning:

Ellsbury leads off with a single. Given the sign to go, this time he successfully steals second base. He advances to third on a grounder to second and a sacrifice fly sends him home. Ortiz bats next and smacks one that ricochets off the center field wall. He's waved to second base but is too slow and is thrown out easily. Another impressive pitching inning by the Red Sox ends the inning 9-6.



The ball is in your field:

- Even if your first attempt doesn't succeed, keep taking calculated risks when chances are in your favor and eventually you'll succeed.
- Even when your outings don't appear to be very successful, your efforts may be productive and put you in the right direction to improve margins in the future. For example, even if you are beat by the competition on one sale, the relationships built may improve opportunities for a future sale.
- Pay attention to the signs and changes in the market. If you can move quickly and see how the ball is going to bounce next, it will improve your chances of success.
- If the next step is not likely to be successful, it may be better to stop and evaluate before continuing in a new direction but, once committed, don't hesitate. He who hesitates is out.
- Know your capabilities and the capability of your team, and you'll make better decisions.

- Come in with a good lead and you'll improve your chances of winning.
- Play your hardest in all conditions.
- Concentration and conviction will lead to successful results.

Post Game Analysis:

If you had made the decision to replace the Yankee pitcher in the fifth inning, the game would still be tied. Your decisions determine how your game ends. Even small decisions can have a big impact. Injuries happen, but it's not an excuse for losing. Perhaps risk management professionals are needed for the Yankees. Past success doesn't guarantee future success. Make investments in top talent. Notice what works and what doesn't work and fix what isn't working. It only takes a one run margin to win a game. Winning by a 15-run margin and then losing the next three by a one-run margin is only one for four. Have fun, and enjoy the process. If your team is having fun, it will attract more fans and make everyone's life more enjoyable.

Top of the Ninth:

The Red Sox come up empty and the score remains at 9-6, as we head to the last of the ninth.

Bottom of the 9th:

The Red Sox put in Jonathon Papelbon, their closer. He dances onto the field with deep concentration, confidence and conviction. Papelbon starts the inning by striking out Cano and Cabrera for the first two outs. It starts to rain but all fans stay to cheer on their Yankees. Jeter then connects and drives the ball out of the park making it 9-7 Red Sox. However, Papelbon bears down, wipes the wet from his face and, after fouling off six pitches, Abreu flies out to end the game. Red Sox win 9-7!

Even though the Red Sox won, experience shows us that:

- If you play hard and put up a good bid, you will win your fair share though you won't win every time. Even the best teams don't win every game. Be ready to come back strong for the next opportunity.

Post Season Analysis:

Baseball has had a lot of coverage around performance-enhancing drugs. Health insurance companies also have issues relating to drugs and coverage. Decisions on these issues affect lives and profit and need to be carefully considered to meet constituent needs.

The Yankees and Red Sox have been around a long time, but the times are always changing. Good teams anticipate the changes and adapt to the new situations. For example, the Yankees own the YES television network and their television contracts allow them to compete at a higher level and dominate the market. Similarly, health carriers can dominate and "own" the network in a region and dominate with higher margins and a competitive edge. As the health care industry changes in America, health insurers will need to continue to change and adapt for long-term success.

The Yankees, and recently the Red Sox, spend more money than any other team for their players. Does this mean they have the best team? The answer is yes. Before you boo me and have all your co-workers (or perhaps your family) wondering why you are making funny noises, let me explain:

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While the Yankees don't win every year or every game, they are consistently one of the best teams in baseball. If you don't yet agree, look at the long-run profitability of the franchise as an indicator of success. The Yankees are the clear winners.

Isn't long-run profitability also the goal of most insurance businesses?

The Yankees and Red Sox

- Invest in the most talented people.
- Offer a competitive product to attract fans.
- Win in the market and make fewer errors than most of their competitors.
- Find new management when they aren't winning championships.

- Sell out every game with huge demand for their product.
- Train and believe in their young players who show promising results.
- Combine good pitching with superb hitting to win games and championships.
- Use statistical analysis and scouting to make better data-driven decisions.
- Overcome obstacles and setbacks and prepare for the upcoming road trip.
- Value diversity in their players and fans, and
- Have fun and celebrate their successes.

Shouldn't we do the same in health insurance... and life? ■

rating unlocks true characteristics of a block as shown under Myth 3.

Commentary

From reviewing thousands of groups, I have developed an approach to applying credibility based on very few claims. Suppose you were looking at experience at a certain level, and over the past three years your manual basis would have expected 5.50 claims. However, there were actually only two. Some actuaries might consider a distribution like Poisson and think –there is a 10 percent likelihood that with 5.50 claims expected there would only be two or fewer claims so maybe they were just lucky. However, knowing the assumptions in developing manual rates and significant factors that are not reflected, with only two claims, I'd suggest it may not be reasonable to assume that 5.50 is the true underlying claim number. Therefore, I would look for an expected claim number, such as 3.63, that is

more likely to have only two claims occur. Under this approach, the lowest experience adjustment factor (EAF) to consider using for rating would be .66 (3.63/5.50). Although only one consideration in rating, it does provide a statistical basis to vary rates from manual. Another important use of expected and actual claims is to look for areas where manual rates should be adjusted for future rating cycles (i.e., if several groups with one network all had significantly better than expected actual claims then probably the network factor should be lowered).

Conclusion

Stop loss is an exciting and challenging specialty area in health. I encourage more actuaries to take a close look at the underwriting side and review real case files. The experience may be insightful and you may draw some interesting conclusions. Enjoy! ■